
CITY OF BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007

DEPARTMENT OF FINANCE AND ADMINISTRATION

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CITY OF BEDFORD, VIRGINIA

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INTRODUCTORY SECTION



City of Bedford, Virginia

Department of Finance

November 9, 2007

The Honorable Mayor, Members of City Council And the Citizens of Bedford, Virginia:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Bedford for the fiscal year ended June 30, 2007. This report is submitted in accordance with Section 15.1-167 of the Code of Virginia and with Section 30 of the Charter of the City of Bedford, both of which require an annual independent audit and report of financial activity of the City. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P., has audited the financial statements and supplemental schedules contained herein. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Reporting Entity and Services Provided

For financial reporting purposes, in accordance with the criteria in Governmental Accounting Standards Board (GASB) Statement No. 14, the City of Bedford includes all funds, agencies, boards, commissions and authorities that are controlled by or are financially dependent upon the City. Control by or financial dependence was determined on the basis of obligation of the City to finance deficits, guarantee debt, select the governing authority, approve the budget, have authority to make a public levy, and to have ownership of assets. As a result of implementing GASB Statement No. 14, the City of Bedford has not identified any entities that should be reported as discretely presented component units of the City.

Related organizations of the City that require only note disclosure presentation according to GASB Statement No. 14 are the City of Bedford Redevelopment and Housing Authority and the Industrial Development Authority of the City of Bedford. Also excluded are the financial statements of the Bedford Public Library System, the Blue Ridge Regional Jail Authority and Central Virginia Community Services Board, which are jointly governed organizations. Finally, not included are the Bedford Joint Economic Development Authority, the Central Virginia Radio Communication Board and the Joint Tourism Program which are joint ventures that are only in note disclosure presentation.

The City of Bedford provides an extensive range of services for its citizens including general administration, public safety, public works, planning, zoning, economic and community development, code enforcement, cemetery management, recreational activities and tourism. The City also provides and maintains electrical, water and sewer utilities, and handles solid waste disposal for the benefit of its citizens. Pursuant to a contract made with Bedford County in 1988, the County provides public school services and educational programs for the students of the City of Bedford. The City reimburses the County for its share of the net expenses based on its percentage of students in the

County's public school system. In addition, agreements with Bedford County have been established to provide judicial administration and health and welfare services for the City. This report includes the fiscal activities of the City in the provision of services and under contracts and agreements made with the County of Bedford, Virginia.

Organization of Government

The City of Bedford was established in October 1782 as the Town of Liberty. In September 1968, the City adopted its present City Charter. The City is organized under a Council-Manager form of government with a seven member City Council as the governing body. The City Council is popularly elected and the Mayor is selected by City Council from its membership. Council is responsible for adopting an annual budget, passing ordinances, establishing policies, appointing committees, and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for the day-to-day operations of the City, and for appointing City department heads.

Economic Condition and Outlook

The City of Bedford is located in the west-central portion of Virginia, midway between the cities of Lynchburg to the east and Roanoke to the west. The City is within the physical boundaries of Bedford County, one of the fastest growing counties in the State. Although the City is a separate, independent, political entity, it serves as the County seat for administrative and judicial affairs. This strategic location between two urban centers and surrounded by Bedford County allows the City to serve as a regional employment and commercial center, while preserving its small town atmosphere and enjoying the markets and services of larger cities.

Bedford enjoys a diversified economy primarily comprised of manufacturing (31%), health care and social assistance (22%), retail sales (10%) and accommodations and food service (7%). Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, weaving, polyurethane products, steel abrasives, closed-cell rubber products and steel cutting dies. Professional services, health services and retail trade are also significant employers in the City. During the first six months of 2007, the City's unemployment rate decreased from 4.5% to 3.6%. Much of this decrease can be attributed to expansion of existing industry and growth in the retail and food service sectors. City Council's commitment to economic development and diversification has positioned the City well for expansion as the overall economic climate continues to improve.

Bedford also enjoys a healthy mix in real estate values with approximately 70 percent coming from residential property, while approximately 30 percent is commercial and industrial. Growth in tax revenues can be attributed in large part to last year's reassessment, which increased real estate tax valuations. Additional increases result from new construction and revenue sharing areas, while personal property and machinery and tools tax have remained flat.

The City of Bedford has enjoyed a relatively stable economic status as a result of several factors. The City was one of the first in the Commonwealth to be selected as a Virginia Main Street City in 1985, and its commitment to downtown revitalization has resulted in millions of dollars being invested in ongoing renovation and rehabilitation projects in the Historic Centertown area. Bedford's downtown continues to maintain a very high occupancy rate, and business owners continue to reinvest in their facilities.

In 1998, the City of Bedford and Bedford County entered into a historic revenue sharing agreement, which established revenue sharing areas on major corridors immediately adjacent to the City. This agreement allows the City to share in County tax revenues in these areas in exchange for providing water and sewer service to stimulate increased development. The City completed construction of water and sewer lines in the US 460 East revenue sharing area, which has encouraged significant commercial development both inside and immediately outside the City borders. Currently, engineering design work is underway for water and sewer service in the US 460 West corridor.

The City and County have developed a 100-acre business park in the City -- The Bedford Center for Business, which provides the City a greater opportunity to compete for industrial relocations and expansions. A 50,000 square foot shell building, constructed in the park by Bedford County to temporarily house court and social services while Centertown's historic courthouse was renovated and expanded, has two tenants under long-term leases-- East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, and the Bedford campus of Central Virginia Community College. The Mid-Atlantic Broadband Cooperative, in conjunction with the Virginia Tobacco Commission and US Department of Commerce's Economic Development Administration, provides reasonably low-cost access to high-speed broadband from facilities in the park. . Most recently, The Matrixx Group, a developer, manufacturer and distributor of thermoplastic materials, is constructing a 37,000 sq. ft. facility in the Bedford Center for Business with plans to begin operation in the first quarter of 2008.

Last year the City of Bedford was awarded a Virginia Enterprise Zone designation, which provides State and local incentives for investment in Centertown, the older manufacturing buildings as well as the Bedford Center for Business. State Enterprise Zone grants provide money as a reward for physical improvements to property; and in the case of manufacturing, grants for job creation above 4 employees. Local incentives are designed to reward both new and existing industries.

Tourism continues to grow in the City and surrounding area. The shared tourism effort with Bedford County stands as a testimonial to the benefits of localities working together. The new Welcome Center, at the intersection of Route 122 and US Highway 460, is a credit to the Bedford community, a beacon for travelers, and cost Bedford residents a fraction of its price tag thanks to City/County joint participation and significant federal transportation funding. On October, 2007, the Welcome Center celebrated two years of operation and over 95,000 visitors.

Major Initiatives

In the coming year, several major initiatives are planned which will assist the City Council, management and staff in preparing for the continued growth and prosperity of the City. These initiatives include:

- Maintaining the City's financial stability with a goal of improving fund balances. As reflected in the accompanying financial statements, the City has made significant strides in reducing its dependency on revenue generated by the sale of electricity, while increasing the revenues from water and sewer operations to better enable those funds to be self-sufficient. However, maintaining financial stability with ever-challenging State mandates and reduced State funding of required services is perhaps the greatest short-term threat to the financial stability of the City.
- The City Council continues to provide support for economic development initiatives, and through the City's Industrial Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives. The City economic development staff will continue to work closely with Bedford County, Virginia's Region

2000 and the Virginia Economic Development Partnership to actively encourage existing industry expansions and solicit new industries.

- The City has focused on improving the connectivity between the National D-Day Memorial/Bedford Welcome Center and Centertown. With partial funding from the Department of Transportation Enhancement Funds, a comprehensive Wayfinder Signage Program is being implemented and a series of physical improvements are scheduled for the US 460/122 interchange, as well as, the Burks Hill Road/Crenshaw entrance to Centertown. The City, in cooperation with Bedford Main Street and service provider JetBroadband, is providing a free, public “wireless hotspot” in Centertown Plaza similar to facilities at the Bedford Welcome Center.
- The City operates a peaking generator to “shave” electric load peaks to reduce wholesale demand charges; continues to upgrade and build new distribution line circuits and a new substation; and has modernized the hydroelectric plant controls to allow remote operation. With other Blue Ridge Power Authority members, the City is investigating the option of constructing a base load coal fired plant to provide diversity in our wholesale power portfolio. Currently, approximately 13% of the City’s electricity is from renewable sources. We have addressed other revenue sources such as pole attachment agreements and right-of-way fees to ensure that we are competitive and maximizing our revenues in these areas. The City will also continue to focus on providing exemplary customer service and reliability for our customers.
- The City has constructed a solid waste transfer and composting facility and is extending the life of the landfill by limiting its use to construction materials only. However, with ever-increasing costs associated with our closed landfill, and the operational costs of our existing landfill, additional revenues and/or operating expense reductions must continue to be evaluated to support the solid waste fund. As a long term solution, the City is participating in the new Region 2000 Solid Waste Authority.
- The City plans to remain an active regional partner in many programs. We currently participate in regional marketing and economic development, and police and emergency services. We also participate in cooperative services such as the Blue Ridge Power Agency, the Region 2000 Regional Commission, and the Municipal Electric Providers Association of Virginia and the new Region 2000 Solid Waste Authority.

Financial Information

The City of Bedford manages its financial affairs using the budgetary basis of accounting and maintains its accounting records on a modified accrual basis as required by accounting principles generally accepted in the United States of America. The modified accrual basis of accounting recognizes revenues when they become both measurable and available. Expenditures are recorded when a fund liability is incurred, except for interest on long-term debt and compensated absences payable. Governmental fund types, such as the City’s General Fund and Special Revenue Funds, are reported in the financial statements on the modified accrual basis. The City’s enterprise funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgments by management.

In addition, the City maintains budgetary controls. These controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, Special Revenue Funds, and Enterprise Funds are included in the annual appropriated budget. The level of budgetary control (e.g., the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are re-appropriated in the subsequent year.

As demonstrated by the financial statements and supplemental schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Cash Management

During the year, cash was invested in certain U.S. Government Agency Securities, prime quality issues of commercial paper, as well as the State Treasurer's Local Government Investment Pool (LGIP). Total deposits and investments at June 30, 2007 totaled \$13,661,897. All deposits of the City are either insured by federal depository insurance or collateralized as required by Virginia Statutes. Total earnings on General Fund deposits and investments were \$398,003 for the year.

Risk Management

The City utilizes a variety of techniques to identify and monitor its risks and exposures for the activities of the City. The City is insured for exposure related to property, boiler and machinery, accident, automobile and general liability. In addition to this, the City is also insured for Public Officials and Law Enforcement Liability and School Board Legal Liability. Workmen's Compensation is covered by insurance through the Virginia Municipal Group Self-Insurance Association. The City provides healthcare coverage for employees through Piedmont Community Health Plan and contributes up to \$370.70 monthly towards the premium for employees.

As part of its overall risk management program, the City has an ongoing safety program initiated to help prevent losses and to better identify those areas that need attention.

Other Information

Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company,

L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is included in the Financial Section of this report. The auditors' reports as required as part of a single audit are found in the Compliance Section of this report.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bedford for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report is a very intensive project, and could not have been accomplished without the assistance and dedication of the Finance Department staff and other personnel from various departments, who assisted in the preparation. A particular thank you goes to Elizabeth Berry-Mosley who provided valuable assistance with this transmittal letter. The Mayor and City Council continue to be very supportive of our efforts to produce the best financial reports possible for our citizens. We appreciate your support in granting us the time and funding to generate this document, and allowing us to submit it to the GFOA for consideration. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and assistance in these efforts.

Respectfully Submitted,



Charles P. Kolakowski
City Manager



Rosemarie B. Jordan
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bedford
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF BEDFORD, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2007

MEMBERS OF CITY COUNCIL

Willard D. "Skip" Tharp, Mayor
Robert T. Wandrei, Vice Mayor

C. G. Stanley
James A. Vest
Mary L. Flood

Thomas M. Padgett
Jeffrey B. Hubbard

MEMBERS OF CITY SCHOOL BOARD

Paul D. Sherman, Chairman
Betsy Klein, Vice Chairman

Anne M. VanDerwerker
William H. Ross
Phyllis J. Parker

Debra Z. Bond
Stephen C. Rush

OTHER OFFICIALS

Charles P. Kolakowski
Barrett F. Warner
Teresa W. Hatcher
William W. Berry, IV
Debbie A. Roberts
Valerie N. Wilson
James E. Day
Russell M. Stevens
Rosemarie B. Jordan
Barrett F. Warner
Clarke W. Gibson
Randal A. Nixon
Eugene Ratzlaff
Dr. James G. Blevins
Charlene D. McFall

City Manager
Assistant City Manager
City Clerk
City Attorney
City Treasurer
Commissioner of the Revenue
Chief of Police
Fire Chief
Director of Finance
Director of Planning and Community Development
Director of Public Works
Director of Parks, Recreation and Cemeteries
Director of Electric Utilities
Superintendent of Schools
Clerk of the School Board

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    Mayor[Mayor] --- CityCouncil[City Council]
    Mayor --- CityTreasurer[City Treasurer]
    Mayor --- CityClerk[City Clerk]
    Mayor --- CityManager[City Manager]
    Mayor --- CityAttorney[City Attorney]
    Mayor --- CitySchoolBoard[City School Board]
    Mayor --- RegionalLibraryBoard[Regional Library Board]
    CityManager --- AssistantCityManager[Assistant City Manager]
    AssistantCityManager --- ITDepartment[IT Department]
    AssistantCityManager --- DirectorPlanning[Director of Planning and Community Development]
    AssistantCityManager --- DirectorParks[Director of Parks, Recreation & Cemeteries]
    AssistantCityManager --- DirectorFinance[Director of Finance]
    AssistantCityManager --- DirectorTourism[Director of Tourism]
    AssistantCityManager --- PublicWorksDirector[Public Works Director]
    DirectorPlanning --- BuildingOfficial[Building Official]
    DirectorPlanning --- FireCodesInspector[Fire & Codes Inspector]
    DirectorPlanning --- CommunityDevelopment[Community Development]
    DirectorParks --- AssistantElectricUtilitiesDirector[Assistant Electric Utilities Director]
    DirectorParks --- LineCrewSuperintendent[Line Crew Superintendent]
    DirectorParks --- ElectricDepartment[Electric Department]
    DirectorParks --- ParksRecreation[Parks & Recreation]
    DirectorParks --- CemeteriesHorticulture[Cemeteries & Horticulture]
    DirectorFinance --- FinanceDepartment[Finance Department]
    DirectorFinance --- PurchasingDepartment[Purchasing Department]
    DirectorFinance --- UtilityBilling[Utility Billing]
    DirectorTourism --- BuildingGroundsSupervisor[Building & Grounds Supervisor]
    DirectorTourism --- BuildingGroundsDivision[Building & Grounds Division]
    DirectorTourism --- EngineeringServicesCoordinator[Engineering Services Coordinator]
    DirectorTourism --- EngineeringDivision[Engineering Division]
    PublicWorksDirector --- WaterWastewaterSuperintendent[Water & Wastewater Superintendent]
    PublicWorksDirector --- PublicServicesSuperintendent[Public Services Superintendent]
    PublicWorksDirector --- LandfillSuperintendent[Landfill Superintendent]
    WaterWastewaterSuperintendent --- WaterTreatmentDivision[Water Treatment Division]
    WaterWastewaterSuperintendent --- WastewaterTreatmentDivision[Wastewater Treatment Division]
    PublicServicesSuperintendent --- WaterTreatmentDivision
    PublicServicesSuperintendent --- WastewaterTreatmentDivision
    LandfillSuperintendent --- SolidWasteDisposalDivision[Solid Waste Disposal Division]
    FireChief[Fire Chief] --- FireDepartment[Fire Department]
    PoliceChief[Chief of Police] --- Captain[Captain]
    PoliceChief --- Lieutenant[Lieutenant]
    Captain --- EmergencyServices[Emergency Services]
    Lieutenant --- AnimalControl[Animal Control]
    Lieutenant --- Patrol[Patrol]
    Lieutenant --- Investigations[Investigations]
    Lieutenant --- Parking[Parking]
  
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Bedford
Bedford, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bedford, Virginia as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bedford, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 11 and on page 49, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 9, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bedford, Virginia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,482,350 (net assets). Of this amount, \$8,923,513 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$156,610, which is primarily attributable to the real estate reassessment and the rise in electric rates to offset the increase in the cost of purchased power.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,042,854, an increase of \$187,521 in comparison with the prior year. Approximately 29% of this total amount, \$611,421 is available for spending at the government's discretion (unreserved) fund balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$611,421, or 3.8% of total general fund expenditures.
- The City's total debt decreased by \$(2,390,694) (6.0%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural and community development. The business-type activities of the City are the Water and Sewer, Solid Waste, and Electric Departments.

Overview of the Financial Statements (Continued)

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer, Solid Waste, and Electric operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Solid Waste, and Electric operations.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's funding progress for the defined benefit pension plan.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$35,482,350 at the close of the most recent fiscal year.

A portion of the City's net assets (75%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets* (25%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 4,300,502	\$ 4,035,091	\$ 17,343,926	\$ 19,136,101	\$ 21,644,428	\$ 23,171,192
Capital assets	16,990,378	17,580,661	36,670,897	36,906,918	53,661,275	54,487,579
Total assets	21,290,880	21,615,752	54,014,823	56,043,019	75,305,703	77,658,771
Long-term liabilities	3,386,725	4,121,726	33,467,136	35,018,310	36,853,861	39,140,036
Other liabilities	1,116,504	1,058,433	1,852,988	2,134,562	2,969,492	3,192,995
Total liabilities	4,503,229	5,180,159	35,320,124	37,152,872	39,823,353	42,333,031
Net assets						
Invested in capital assets, net of related debt	14,745,115	14,470,547	11,813,722	8,371,842	26,558,837	22,842,389
Unrestricted	2,042,536	1,965,046	6,880,977	10,518,305	8,923,513	12,483,351
Total net assets	\$ 16,787,651	\$ 16,435,593	\$ 18,694,699	\$ 18,890,147	\$ 35,482,350	\$ 35,325,740

At the end of the current fiscal year, the City is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$156,610 during the current fiscal year. This increase represents a .44% increase during the current fiscal year. The key elements of this increase are the increase in real estate tax revenues due to the reassessment and the increase in electric revenues due to a 20% increase in rates. This increase was necessary to offset an increase in the cost of purchased power.

Governmental Activities – Governmental activities increased the City's net assets by \$352,058. A key element of this increase or \$654,445 is the increase in property taxes due to the reassessment that increased real estate tax valuations during the year.

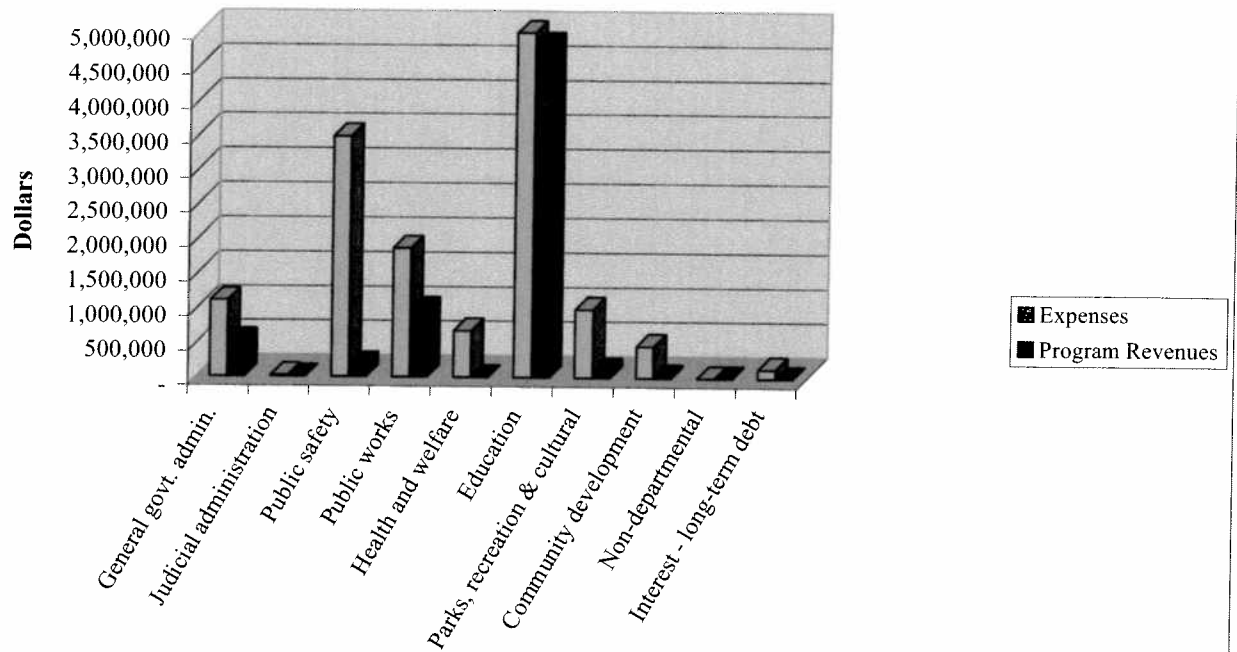
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. A few noteworthy exceptions, however, are the increases in the public safety category and the education category. The public safety category increase of \$344,329 includes the increase in costs for the regional jail and secure detention of \$222,219. The increase in the education category of \$356,928 includes an increase in the amount paid for the City's share of the Bedford County school system.

Business-type Activities – Business-type activities decreased the City's net assets by \$(195,488). A key element of this decrease is as follows: The solid waste fund continues to incur high expenses related to groundwater contaminant issues at the closed City landfill.

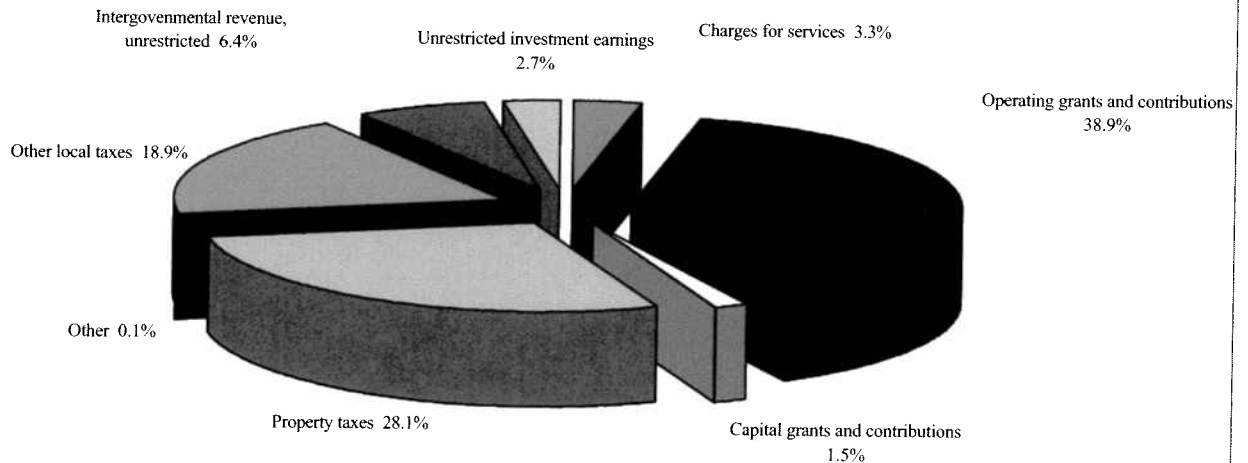
The City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 507,658	\$ 462,555	\$ 23,640,530	\$ 19,382,324	\$ 24,148,188	\$ 19,844,879
Operating grants and contributions	5,916,844	5,403,786	330,314	-	6,247,158	5,403,786
Capital grants and contributions	229,931	171,077	-	-	229,931	171,077
General revenues						
Property taxes	4,269,862	3,615,417	-	-	4,269,862	3,615,417
Other taxes	2,876,220	2,597,919	-	-	2,876,220	2,597,919
Intergovernmental revenue unrestricted	971,695	982,103	-	-	971,695	982,103
Investment earnings	404,158	343,308	685,764	371,778	1,089,922	715,086
Other	22,720	57,037	-	663,538	22,720	720,575
Gain from sale of capital assets	4,621	26,212	-	-	4,621	26,212
Total revenues	15,203,709	13,659,414	24,656,608	20,417,640	39,860,317	34,077,054
Expenses						
General government	1,108,975	1,255,082	-	-	1,108,975	1,255,082
Judicial administration	20,269	22,108	-	-	20,269	22,108
Public safety	3,491,536	3,147,207	-	-	3,491,536	3,147,207
Public works	1,870,534	1,734,423	-	-	1,870,534	1,734,423
Health and welfare	675,828	558,469	-	-	675,828	558,469
Education	7,280,991	6,924,063	-	-	7,280,991	6,924,063
Parks, recreation, and cultural	990,201	947,889	-	-	990,201	947,889
Community development	464,080	518,251	-	-	464,080	518,251
Non-departmental	1,208	7,829	-	-	1,208	7,829
Interest on long-term debt	137,765	112,811	-	-	137,765	112,811
Water and sewer	-	-	3,074,722	3,046,030	3,074,722	3,046,030
Solid waste	-	-	1,789,163	2,097,695	1,789,163	2,097,695
Electric	-	-	18,798,435	15,305,400	18,798,435	15,305,400
Total expenses	16,041,387	15,228,132	23,662,320	20,449,125	39,703,707	35,677,257
Excess (deficiency) before transfers	(837,678)	(1,568,718)	994,288	(31,485)	156,610	(1,600,203)
Transfers	1,189,736	1,954,023	(1,189,736)	(1,954,023)	-	-
Change in net assets	352,058	385,305	(195,448)	(1,985,508)	156,610	(1,600,203)
Net assets – July 1, as restated	16,435,593	16,050,288	18,890,147	20,875,655	35,325,740	36,925,943
Net assets – June 30	\$ 16,787,651	\$ 16,435,593	\$ 18,694,699	\$ 18,890,147	\$ 35,482,350	\$ 35,325,740

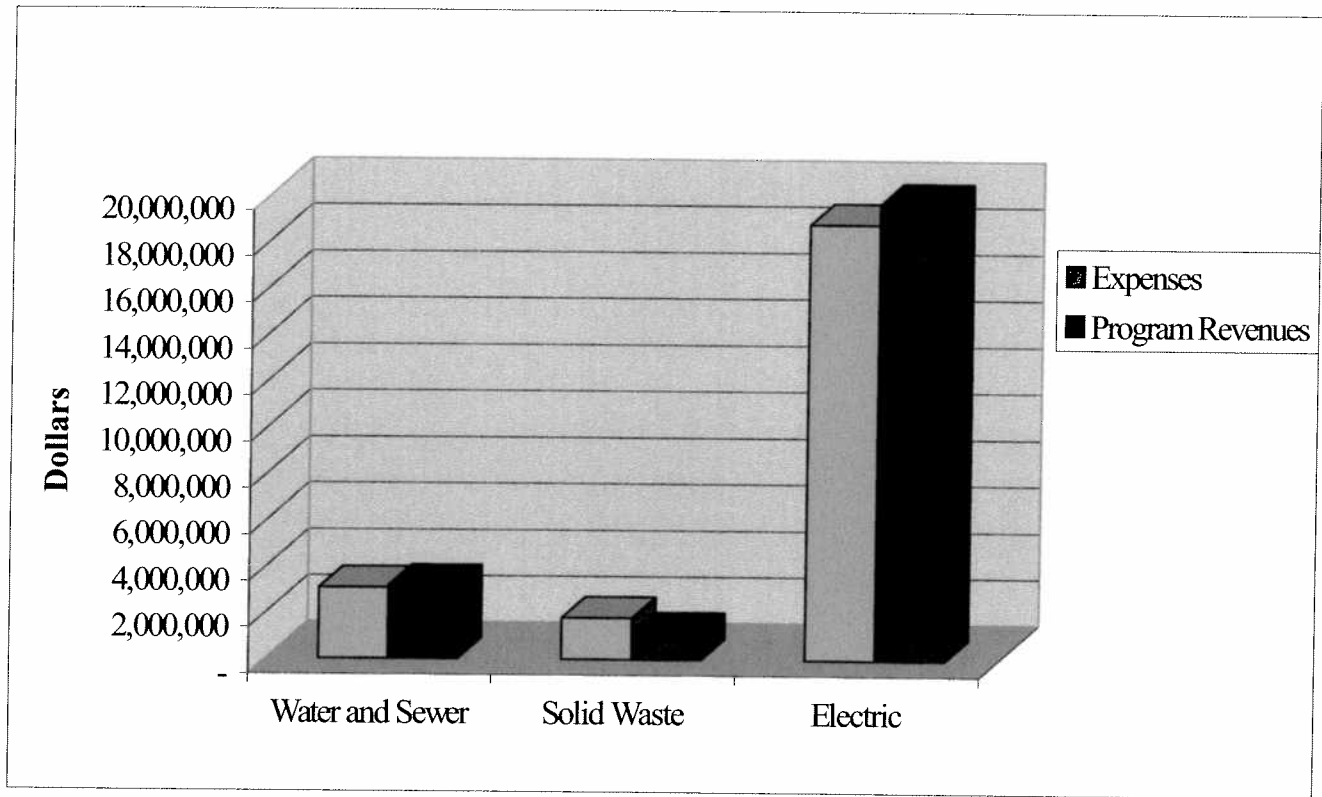
Expenses and Program Revenues – Governmental Activities



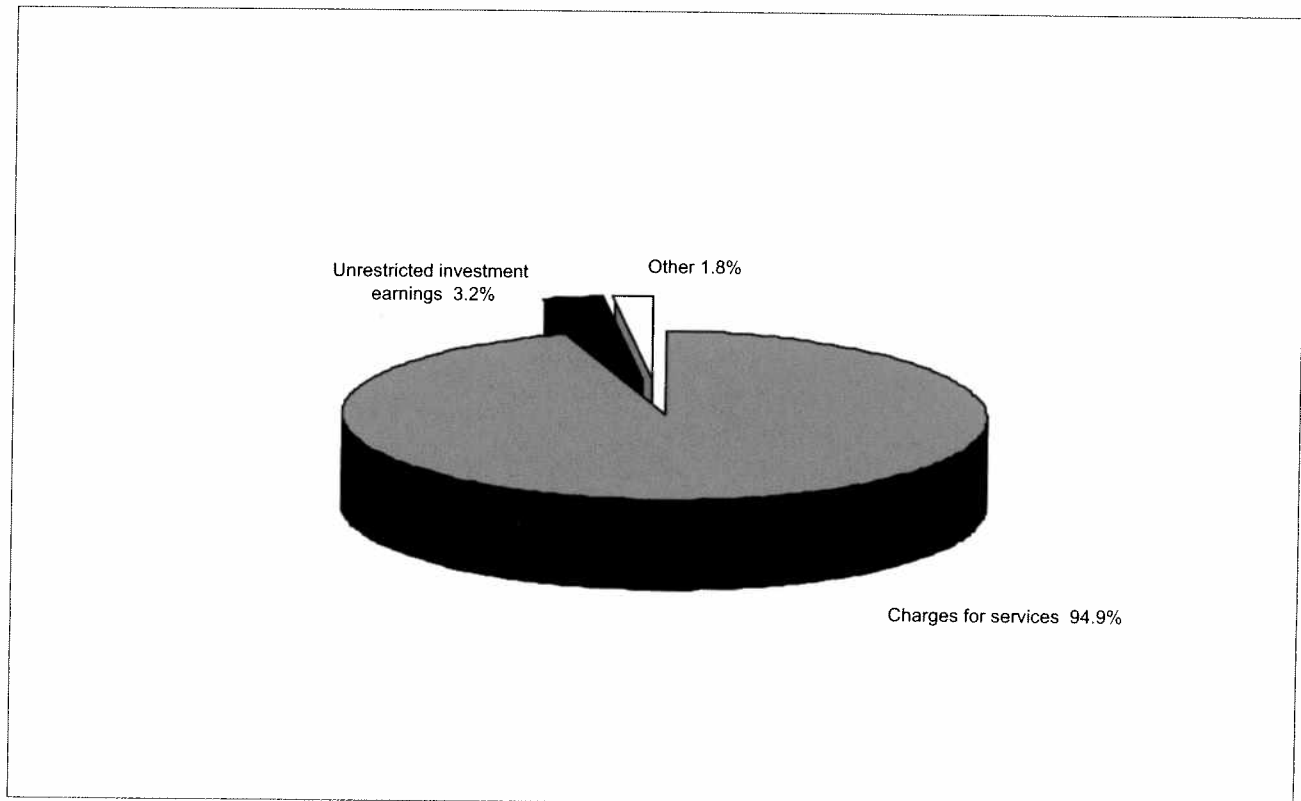
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,042,854, an increase of \$187,521 in comparison with the prior year. Approximately 20% of this total amount – that is, \$611,421 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period of \$1,096,368 or to generate income of \$594,860 to pay for the perpetual care of the City's cemeteries or \$246,958 and \$190,768 to be spent on E-911 and VCDG expenditures, respectively.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$611,421, while total fund balance reached \$3,042,854. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.8% of total general fund expenditures, while total fund balance represents 19% of that same amount.

The fund balance of the City's general fund increased by \$657,224 during the current fiscal year. The key factor to this change is the increase in general property taxes of \$644,322 due to the reassessment for real estate valuations.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer fund at the end of the year had a deficit of \$(720,048); the solid waste fund had a deficit of \$(5,750,824) and the unrestricted net assets for the electric fund amounted to \$13,351,849. The total decrease in net assets was \$(195,448). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$(1,056,284). Highlights are as follows:

- \$560,543 was re-appropriated for various miscellaneous projects from prior year funding.
- \$222,115 was appropriated for the additional costs of the Blue Ridge Regional Jail and Juvenile Detention.
- \$430,000 was appropriated to intergovernmental revenues and public safety expenditures for the construction of a burn building for the use of public safety departments. This project was a grant received from the Department of Fire Programs.
- \$235,896 was re-appropriated for community development projects, such as the bicycle trail, economic development fund, Centertown improvement project and Centertown marketing plan update. These are all amounts that were approved in the prior year budget; however, the projects were not completed during the prior fiscal year.

Differences between the final amended budget and actual results amounted to \$2,000,886. Highlights are as follows:

- Intergovernmental revenues included \$430,000 for the burn building grant. As of June 30, 2007, the funds had not been received.
- Intergovernmental revenues included \$200,000 for a CDBG grant and a Wayfinder Signage grant. As of June 30, 2007, only \$16,700 in funding had been received.
- The budget for Public Safety included \$620,000 for a ladder truck and \$430,000 for construction of a burn building. As of June 30, 2007, no funds had been expended for either project.

Capital Asset and Debt Administration

Capital Assets – The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$53,661,725 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery, equipment, and infrastructure. The total decrease in the City’s investment in capital assets for the current fiscal year was 1.5% (a 3.3% decrease for governmental activities and a 0.6% decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

	The City’s Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,989,260	\$ 1,989,260	\$ 1,330,717	\$ 994,514	\$ 3,319,977	\$ 2,983,774
Buildings and improvements	12,372,150	12,335,196	29,618,193	28,495,231	41,990,343	40,830,427
Distribution and transmission systems	-	-	29,339,989	28,564,357	29,339,989	28,564,357
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	7,106,285	6,849,144	3,103,055	3,008,294	10,209,340	9,857,438
Infrastructure	11,143,442	10,871,862	-	-	11,143,442	10,871,862
Construction in progress	120,356	99,336	110,659	1,198,022	231,015	1,297,358
Less accumulated depreciation	(15,741,115)	(14,564,137)	(30,147,661)	(28,669,445)	(45,888,776)	(43,233,582)
Total	\$ 16,990,378	\$ 17,580,661	\$ 36,670,897	\$ 36,906,918	\$ 53,661,275	\$ 54,487,579

Additional information on the City’s capital assets can be found in Note 6 of this report.

Long-term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of \$33,972,002. Of this amount, \$33,256,075 comprises debt backed by the full faith and credit of the government, and \$715,927 is related to capital lease obligations.

The City’s Outstanding Debt General Obligation Bonds and Capital Leases

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 1,520,600	\$ 2,047,200	\$ 13,856,942	\$ 14,617,123	\$ 15,377,542	\$ 16,664,323
Literary fund loans	975,000	1,050,000	-	-	975,000	1,050,000
Revenue bonds	-	-	16,903,533	17,714,178	16,903,533	17,714,178
Capital leases	715,927	876,479	-	-	715,927	876,479
Total	\$ 3,211,527	\$ 3,973,679	\$ 30,760,475	\$ 32,331,301	\$ 33,972,002	\$ 36,304,980

The City's total debt decreased by \$(2,332,978) or (6.4%) during the current fiscal year. The key factors in this decrease are the principal payments on all debt issues of \$2,832,978 and the additional debt in the water and sewer fund for \$500,000.

The City maintains a AAA rating (insured) from Standard & Poor's and an A3 rating from Moody's for its outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City is currently 3.6%, which is a decrease from a rate of 3.7% a year ago. This compares to the State's average unemployment rate of 3.1% and the national average rate of 4.9%.
- The occupancy rate of the government's central business district has remained at 95% for the past 5 years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Bedford, 215 East Main Street, Bedford, Virginia 24523.

BASIC FINANCIAL STATEMENTS

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 2,328,070	\$ 6,225,866	\$ 8,553,936
Investments (Note 2)	229,205	-	229,205
Receivables, net (Note 3)	306,584	3,194,874	3,501,458
Due from other governmental units (Note 5)	475,468	39,969	515,437
Inventories	-	956,444	956,444
Restricted assets:			
Cash and cash equivalents, restricted (Note 2)	907,395	3,971,361	4,878,756
Deferred expenses	53,780	442,686	496,466
Net investment in direct financing lease (Note 14)	-	2,512,726	2,512,726
Capital assets: (Note 6)			
Nondepreciable capital assets	2,109,616	1,441,376	3,550,992
Depreciable capital assets, net	14,880,762	35,229,521	50,110,283
Total assets	<u>21,290,880</u>	<u>54,014,823</u>	<u>75,305,703</u>
LIABILITIES			
Accounts payable and accrued liabilities	133,255	1,306,003	1,439,258
Accrued payroll and related liabilities	181,708	112,686	294,394
Accrued interest payable	40,922	186,229	227,151
Due to other governmental units (Note 5)	760,619	53,335	813,954
Customer security deposits	-	194,735	194,735
Noncurrent liabilities:			
Due within one year (Note 7)	788,255	2,501,019	3,289,274
Due in more than one year (Note 7)	2,598,470	30,966,117	33,564,587
Total liabilities	<u>4,503,229</u>	<u>35,320,124</u>	<u>39,823,353</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,745,115	11,813,722	26,558,837
Unrestricted (Note 9)	2,042,536	6,880,977	8,923,513
Total net assets	<u>\$ 16,787,651</u>	<u>\$ 18,694,699</u>	<u>\$ 35,482,350</u>

EXHIBIT 2

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities:						
General government administration	\$ 1,108,975	\$ 276,964	\$ 246,192	\$ -	\$ (585,819)	\$ (585,819)
Judicial administration	20,269	-	-	-	(20,269)	(20,269)
Public safety	3,491,536	125,411	59,214	-	(3,306,911)	(3,306,911)
Public works	1,870,534	-	983,979	-	(886,555)	(886,555)
Health and welfare	675,828	-	-	-	(675,828)	(675,828)
Education	7,280,991	-	4,621,208	213,231	(2,446,552)	(2,446,552)
Parks, recreation, and cultural	990,201	105,283	6,251	-	(878,667)	(878,667)
Community development	464,080	-	-	16,700	(447,380)	(447,380)
Non-departmental	1,208	-	-	-	(1,208)	(1,208)
Interest on long-term debt	137,765	-	-	-	(137,765)	(137,765)
Total governmental activities	16,041,387	507,658	5,916,844	229,931	(9,386,954)	(9,386,954)
Business-type activities:						
Water and sewer	3,074,722	2,823,034	330,314	-	\$ 78,626	78,626
Solid waste	1,789,163	1,130,918	-	-	(658,245)	(658,245)
Electric	18,798,435	19,686,578	-	-	888,143	888,143
Total business-type activities	23,662,320	23,640,530	330,314	-	308,524	308,524
Total primary government	\$ 39,703,707	\$ 24,148,188	\$ 6,247,158	\$ 229,931	(9,386,954)	(9,078,430)
General revenues:						
Property taxes					4,269,862	4,269,862
Sales tax					1,017,547	1,017,547
Business license tax					671,322	671,322
Meals tax					650,068	650,068
Other local taxes					537,283	537,283
Intergovernmental revenue, unrestricted					971,695	971,695
Unrestricted investment earnings					404,158	1,089,922
Other					22,720	22,720
Gain on sale of capital assets					4,621	4,621
Transfers (Note 4)					1,189,736	(1,189,736)
Total general revenues and transfers					9,739,012	9,235,040
Change in net assets					352,058	156,610
Net assets at July 1, as restated (Note 19)					16,435,593	35,325,740
Net assets at June 30					\$ 16,787,651	\$ 35,482,350

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,891,677	\$ 436,393	\$ 2,328,070
Cash and cash equivalents, restricted	907,395	-	907,395
Investments	229,205	-	229,205
Receivables, net (Note 3)	305,611	973	306,584
Due from other funds (Note 4)	437,366	-	437,366
Due from other governmental units (Note 5)	475,468	-	475,468
Total assets	<u>\$ 4,246,722</u>	<u>\$ 437,366</u>	<u>\$ 4,684,088</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 133,255	\$ -	\$ 133,255
Accrued payroll and related liabilities	181,708	-	181,708
Deferred revenue (Note 3)	128,286	-	128,286
Due to other funds (Note 4)	-	437,366	437,366
Due to other governmental units (Note 5)	760,619	-	760,619
Total liabilities	<u>1,203,868</u>	<u>437,366</u>	<u>1,641,234</u>
Fund balances: (Note 9)			
Reserved for:			
Encumbrances	1,096,368	-	1,096,368
Perpetual care	594,860	-	594,860
Due from other governmental units	302,839	-	302,839
E-911	246,598	-	246,598
VCDG	190,768	-	190,768
Unreserved, reported in:			
General fund, designated	58,894	-	58,894
General fund, undesignated	552,527	-	552,527
Total fund balances	<u>3,042,854</u>	<u>-</u>	<u>3,042,854</u>
Total liabilities and fund balances	<u>\$ 4,246,722</u>	<u>\$ 437,366</u>	<u>\$ 4,684,088</u>

CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total Fund Balances - Governmental Funds \$ 3,042,854

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.

Nondepreciable capital assets	\$ 2,109,616	
Depreciable capital assets, net	<u>14,880,762</u>	
		16,990,378

Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets:

Issuance costs total \$82,845 and		
accumulated amortization is \$29,065	53,780	
Deferred loss on refunding	<u>5,089</u>	
		58,869

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		128,286
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(1,520,600)	
Capital lease obligations	(715,927)	
Literary fund loans	(975,000)	
Accrued interest payable	(40,922)	
Compensated absences	<u>(180,287)</u>	
		<u>(3,432,736)</u>

Total Net Assets - Governmental Activities \$ 16,787,651

CITY OF BEDFORD, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	\$ 4,251,913	\$ -	\$ 4,251,913
Other local taxes	2,756,452	98,733	2,855,185
Permits, privilege fees, and regulatory licenses	33,833	-	33,833
Fines and forfeitures	91,148	-	91,148
Investment earnings	398,003	6,154	404,157
Charges for services	278,926	-	278,926
Other	8,832	-	8,832
Intergovernmental	7,126,435	-	7,126,435
Recovered costs	130,710	-	130,710
Total revenues	<u>15,076,252</u>	<u>104,887</u>	<u>15,181,139</u>
EXPENDITURES			
Current:			
General government administration	1,041,035	-	1,041,035
Judicial administration	20,269	-	20,269
Public safety	3,199,801	105,458	3,305,259
Public works	2,039,525	-	2,039,525
Health and welfare	675,828	-	675,828
Education	6,849,211	-	6,849,211
Parks, recreation, and cultural	980,295	-	980,295
Community development	381,138	-	381,138
Non-departmental	1,208	-	1,208
Debt service:			
Principal retirement	735,419	26,733	762,152
Interest and fiscal charges	127,022	5,033	132,055
Total expenditures	<u>16,050,751</u>	<u>137,224</u>	<u>16,187,975</u>
Excess of expenditures over revenues	<u>(974,499)</u>	<u>(32,337)</u>	<u>(1,006,836)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	4,621	-	4,621
Transfers in (Note 4)	1,904,366	-	1,904,366
Transfers out (Note 4)	(277,264)	(437,366)	(714,630)
Total other financing sources and uses	<u>1,631,723</u>	<u>(437,366)</u>	<u>1,194,357</u>
Net change in fund balances	<u>657,224</u>	<u>(469,703)</u>	<u>187,521</u>
FUND BALANCES AT JULY 1	<u>2,385,630</u>	<u>469,703</u>	<u>2,855,333</u>
FUND BALANCES AT JUNE 30	<u><u>\$ 3,042,854</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,042,854</u></u>

CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007**

Net Change in Fund Balances – Governmental Funds \$ 187,521

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 586,695	
Depreciation expense	<u>(1,176,978)</u>	
		(590,283)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

17,949

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Principal repayments:

General obligation bonds	526,600	
Capital lease obligations	160,552	
Literary fund loans	<u>75,000</u>	
		762,152

Governmental funds report the effect of bond issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:

Amortization of bond issuance costs	(7,758)	
Amortization of deferred amounts	(7,580)	
Interest expense	<u>9,628</u>	
		(5,710)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(19,571)

Change in Net Assets - Governmental Activities

\$ 352,058

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 4,142,035	\$ 4,142,035	\$ 4,251,913	\$ 109,878
Other local taxes	2,615,000	2,615,000	2,756,452	141,452
Permits, privilege fees, and regulatory licenses	40,100	40,100	33,833	(6,267)
Fines and forfeitures	77,500	77,500	91,148	13,648
Investment earnings	261,000	261,000	398,003	137,003
Charges for services	220,700	220,700	278,926	58,226
Other	2,000	8,251	8,832	581
Intergovernmental	7,368,938	7,831,244	7,126,435	(704,809)
Recovered costs	188,100	188,100	130,710	(57,390)
Total revenues	14,915,373	15,383,930	15,076,252	(307,678)
EXPENDITURES				
Current:				
General government administration	1,177,143	1,379,040	1,041,035	338,005
Judicial administration	40,600	40,600	20,269	20,331
Public safety	3,731,033	4,449,858	3,199,801	1,250,057
Public works	2,025,310	2,256,322	2,039,525	216,797
Health and welfare	779,120	766,120	675,828	90,292
Education	6,842,206	6,935,757	6,849,211	86,546
Parks, recreation, and cultural	1,056,900	1,108,070	980,295	127,775
Community development	684,775	926,161	381,138	545,023
Non-departmental	3,000	3,000	1,208	1,792
Debt service:				
Principal retirement	735,400	735,400	735,419	(19)
Interest and fiscal charges	127,500	127,500	127,022	478
Total expenditures	17,202,987	18,727,828	16,050,751	2,677,077
Excess of expenditures over revenues	(2,287,614)	(3,343,898)	(974,499)	2,369,399
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	4,000	4,000	4,621	621
Proceeds from issuance of debt	806,500	806,500	-	(806,500)
Transfers in	1,467,000	1,467,000	1,904,366	437,366
Transfers out	(277,264)	(277,264)	(277,264)	-
Total other financing sources (uses)	2,000,236	2,000,236	1,631,723	(368,513)
Net change in fund balances	\$ (287,378)	\$ (1,343,662)	\$ 657,224	\$ 2,000,886

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS (DEFICIT)

PROPRIETARY FUNDS

June 30, 2007

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 6,225,866	\$ 6,225,866
Receivables, net (Note 3)	597,867	218,981	2,378,026	3,194,874
Due from other funds (Note 4)	-	-	2,900,075	2,900,075
Due from other governmental units (Note 5)	39,969	-	-	39,969
Inventories	-	-	956,444	956,444
Total current assets	637,836	218,981	12,460,411	13,317,228
Noncurrent assets:				
Cash and cash equivalents, restricted	776,333	2,703,488	491,540	3,971,361
Deferred expenses	13,333	41,620	387,733	442,686
Net investment in direct financing lease (Note 14)	-	-	2,512,726	2,512,726
Capital assets: (Note 6)				
Nondepreciable capital assets	368,159	869,531	203,686	1,441,376
Depreciable capital assets, net	17,981,250	1,555,279	15,692,992	35,229,521
Total noncurrent assets	19,139,075	5,169,918	19,288,677	43,597,670
Total assets	19,776,911	5,388,899	31,749,088	56,914,898
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	79,637	20,910	1,205,456	1,306,003
Accrued payroll and related liabilities	47,706	10,241	54,739	112,686
Accrued interest payable	49,979	62,288	73,962	186,229
Due to other funds (Note 4)	1,091,616	1,808,459	-	2,900,075
Due to other governmental units (Note 5)	-	-	53,335	53,335
Customer security deposits	31,177	-	163,558	194,735
Noncurrent liabilities due within a year (Note 7)	1,027,967	694,246	778,806	2,501,019
Total current liabilities	2,328,082	2,596,144	2,329,856	7,254,082
Noncurrent liabilities:				
Due in more than a year (Note 7)	9,493,397	7,424,502	14,048,218	30,966,117
Total liabilities	11,821,479	10,020,646	16,378,074	38,220,199
NET ASSETS (DEFICIT) (Note 9)				
Invested in capital assets, net of related debt	8,675,480	1,119,077	2,019,165	11,813,722
Unrestricted	(720,048)	(5,750,824)	13,351,849	6,880,977
Total net assets (deficit)	\$ 7,955,432	\$ (4,631,747)	\$ 15,371,014	\$ 18,694,699

CITY OF BEDFORD, VIRGINIA

EXHIBIT 9

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
Year Ended June 30, 2007**

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 2,823,034	\$ 1,130,918	\$ 19,686,578	\$ 23,640,530
Total operating revenues	2,823,034	1,130,918	19,686,578	23,640,530
OPERATING EXPENSES				
Refuse collection	-	204,330	-	204,330
Refuse disposal	-	355,593	-	355,593
Recycling	-	24,489	-	24,489
Supply and purification	505,901	-	-	505,901
Wastewater treatment	993,398	-	-	993,398
Wastewater pre-treatment	79,690	-	-	79,690
Transmission and distribution	184,916	-	1,036,847	1,221,763
Power generation	-	-	87,983	87,983
Purchased power	-	-	14,611,381	14,611,381
Meter reading	-	-	41,535	41,535
Landfill closure and postclosure care	-	692,956	-	692,956
Administration	319,203	215,829	1,247,598	1,782,630
Maintenance and repair	159,137	-	152,432	311,569
Depreciation	622,075	107,529	748,612	1,478,216
Amortization	6,667	8,952	22,720	38,339
Total operating expenses	2,870,987	1,609,678	17,949,108	22,429,773
Operating income (loss)	(47,953)	(478,760)	1,737,470	1,210,757
NONOPERATING REVENUES (EXPENSES)				
Interest income	35,860	164,741	485,163	685,764
Interest expense	(203,735)	(179,485)	(816,986)	(1,200,206)
Contribution to joint IDA	-	-	(32,341)	(32,341)
Revenue sharing agreement	330,314	-	-	330,314
Net nonoperating revenue (expenses)	162,439	(14,744)	(364,164)	(216,469)
Income (loss) before transfers	114,486	(493,504)	1,373,306	994,288
TRANSFERS IN (Note 4)	-	277,264	-	277,264
TRANSFERS OUT (Note 4)	-	-	(1,467,000)	(1,467,000)
Change in net assets	114,486	(216,240)	(93,694)	(195,448)
NET ASSETS (DEFICIT) AT JULY 1, as restated (Note 19)	7,840,946	(4,415,507)	15,464,708	18,890,147
NET ASSETS (DEFICIT) AT JUNE 30	\$ 7,955,432	\$ (4,631,747)	\$ 15,371,014	\$ 18,694,699

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,718,912	\$ 1,102,863	\$ 19,501,764	\$ 23,323,539
Payments to suppliers	(1,262,686)	(1,438,007)	(16,000,592)	(18,701,285)
Payments to employees	(974,088)	(221,211)	(1,117,201)	(2,312,500)
Net cash provided by (used in) operating activities	482,138	(556,355)	2,383,971	2,309,754
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing agreement	333,331	-	-	333,331
Contribution to joint IDA	-	-	-	-
Interfund borrowing	437,813	1,617,548	(2,900,075)	(844,714)
Transfers from other funds	-	277,264	-	277,264
Transfers to other funds	-	-	(1,467,000)	(1,467,000)
Net cash provided by (used in) noncapital financing activities	771,144	1,894,812	(4,367,075)	(1,701,119)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of debt	500,000	-	-	500,000
Purchases of capital assets	(98,622)	(884,064)	(644,511)	(1,627,197)
Principal paid on capital debt	(954,230)	(429,251)	(687,345)	(2,070,826)
Debt issuance costs	(20,000)	-	-	(20,000)
Interest paid on capital debt	(200,429)	(171,557)	(737,542)	(1,109,528)
Net cash used in capital and related financing activities	(773,281)	(1,484,872)	(2,069,398)	(4,327,551)
INVESTING ACTIVITIES				
Interest received	35,860	164,741	485,163	685,764
Net cash provided by investing activities	35,860	164,741	485,163	685,764
Net increase (decrease) in cash and cash equivalents	515,861	18,326	(3,567,339)	(3,033,152)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	260,472	2,685,162	10,284,745	13,230,379
Ending at June 30	\$ 776,333	\$ 2,703,488	\$ 6,717,406	\$ 10,197,227
RECONCILIATION TO EXHIBIT 6				
Cash and cash equivalents	\$ -	\$ -	\$ 6,225,866	\$ 6,225,866
Cash and cash equivalents, restricted	776,333	2,703,488	491,540	3,971,361
	\$ 776,333	\$ 2,703,488	\$ 6,717,406	\$ 10,197,227
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (47,953)	\$ (478,760)	\$ 1,737,470	\$ 1,210,757
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	628,742	116,481	771,332	1,516,555
Landfill closure and postclosure care	-	(91,000)	-	(91,000)
Nonoperating receipts	-	-	-	-
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(106,560)	(28,055)	(195,135)	(329,750)
Inventories	-	-	(87,869)	(87,869)
(Decrease) increase in:				
Accounts payable and accrued liabilities	18,837	(72,798)	156,223	102,262
Accrued payroll and related liabilities	(14,237)	(4,897)	(18,539)	(37,673)
Customer security deposits	2,438	-	10,321	12,759
Compensated absences	871	2,674	10,168	13,713
Net cash provided by (used in) operating activities	\$ 482,138	\$ (556,355)	\$ 2,383,971	\$ 2,309,754
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 34,585	\$ -	\$ -	\$ 34,585

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The City of Bedford, Virginia (the "City") was incorporated as a city in 1968. The City operates on a Council-Manager form of government and provides all municipal services to its residents either directly or through shared services agreements with the County of Bedford, Virginia (see Note 11). As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government). The City does not have any component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Central Virginia Community Services Board

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell and the City of Lynchburg, participates in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$10,000 for an operating contribution to the Board for the current year.

Blue Ridge Regional Jail Authority

The City, in conjunction with the Counties of Halifax, Bedford, and Campbell, and the City of Lynchburg, participates in the Blue Ridge Regional Jail Authority (the "Authority"). Each member jurisdiction pays a per-diem charge for each day that one of its prisoners is at any regional jail facility. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-diem charge is based upon an assumed number of prisoner days and is subject to adjustment at the end of each fiscal year.

Bedford Public Library System

The Bedford Public Library System (the "Library") is an independent regional library system created by an agreement between the City and the County of Bedford. The Library is governed by a board consisting of six members appointed equally by the City and County. Since the County provides a major portion of the Library's annual revenue, it is accounted for in the County's financial statements.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations:

City of Bedford Redevelopment and Housing Authority

Under the *Code of Virginia*, the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in October 1970, City Council activated the City of Bedford Redevelopment and Housing Authority. The Authority owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the Authority are appointed by City Council; however, City Council is not financially accountable for the Authority.

Industrial Development Authority of the City of Bedford

City Council passed an ordinance on November 10, 1970, which created the Industrial Development Authority of the City of Bedford (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, the City is not financially accountable for the IDA.

Other Boards and Commissions

City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. However, the boards and commissions are advisory in nature and the City is not financially accountable for these organizations.

Joint Ventures:

Joint Industrial Development Authority

The City, in conjunction with the County of Bedford, created a Joint Industrial Development Authority, which is composed of a seven-member board of directors appointed by the participating localities. The City contributes a predetermined percentage of electric fund income before transfers and contributions to the Authority each year to fund expenses. The percentage is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (4.60% for 2007). The City made an operating contribution of \$32,341 to the Authority for the year ended June 30, 2007. The City and County have agreed to share equally any additional amounts necessary to cover the Authority costs. Complete financial statements of the Joint Industrial Development Authority can be obtained from the Director of Finance of the City.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Joint Ventures: (Continued)

Central Virginia Radio Communication Board

The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Lynchburg for the operation of a regional radio communication system. The Central Virginia Radio Communication Board is responsible for overseeing the management, operation, and administration of the system. The project is financed by lease revenue bonds of the Industrial Development Authorities of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest of 5.72%) and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 3.9%. Future minimum lease payments in the amount of \$131,861 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$77,462 is shown in the Governmental Activities capital assets net of accumulated depreciation. Separate financial statements for this joint venture were not available.

Joint Tourism Program

The City, in conjunction with the County of Bedford, created a Joint Tourism Program (the "Program"), which is composed of a three-member executive committee made up of the City Manager, County Administrator, and Executive Director of the Bedford Area Chamber of Commerce. The City and County have agreed to share equally in the annual operating and capital expenses of the Program. The City and County each contributed approximately \$205,000 to the Program during 2007. Separate financial statements for this joint venture were not available.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no major governmental funds, except for the General Fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the City's water and sewer operations.

The *solid waste fund* accounts for the activities of the City's solid waste operations.

The *electric fund* accounts for the activities of the City's electric distribution operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer, solid-waste, and electric enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

Following are the procedures used to establish the budgetary data reflected in the financial statements:

- 1) Prior to May 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the fund level.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$1,524,841 during the fiscal year ended June 30 primarily for general government administration, public safety, and public works.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) Budgets for the General Fund and Nonmajor Special Revenue E-911 Fund are adopted on the modified accrual basis of accounting.

All General Fund appropriations which are not encumbered lapse at year end.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the General Fund and Nonmajor Special Revenue E-911 Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at fair value.

H. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and specific account analysis.

I. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of electric department parts and materials held for consumption, which are recorded as an expense when used.

J. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$29,893 of interest expense was included as part of the cost of capital assets under construction.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Property, plant, and equipment generally are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	30-40 years
Machinery and equipment	5-10 years
Distribution and transmission systems	40-50 years
Infrastructure	40-50 years

Certain capital assets used specifically in landfill operations are depreciated based on the percentage of capacity used.

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. The retroactive reporting of infrastructure placed into service between January 1, 1980 and July 1, 2001 was subject to an extended implementation period and is effective for the current fiscal year.

K. Deferred Expenses

Deferred expenses consist of bond related costs that are amortized using the straight-line method over the life of the related bond issue.

L. Deferred Revenues

Deferred revenues consist primarily of property taxes not collected within 45 days of year end and property taxes collected that are not yet due.

M. Compensated Absences

City employees accumulate vacation time depending upon their length of service. Outstanding vacation time up to 20 days is payable upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental funds when the amounts are due and payable.

N. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

N. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

P. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code of Virginia*, or covered by federal depository insurance.

Investments

Investment Policy:

In accordance with the *Code of Virginia* and other applicable law, including regulations, the City's investment policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than three months from the date of purchase.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

The City has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP which is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities, and towns.

Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Standard and Poor's. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated "A" or better by Moody's and Standard & Poor's.

Concentration of Credit Risk:

Although the intent of the Policy is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the City may invest in any one issuer.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk:

As of June 30, the carrying values, credit rating, percentage of portfolio and weighted average maturity of investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity*</u>
Money Market Funds:				
Virginia LGIP	\$ 7,269,747	AAAm	61.56%	-
SNAP	3,387,292	AAAm	28.68	-
First American Prime Obligations Fund	516,917	AAAm	4.38	0.12
Fidelity Government Portfolio	171,824	AAAm	1.46	0.15
First American Treasury Obligations Fund	150,982	AAAm	1.28	0.08
Federated Treasury Obligations Fund	83,037	AAAm	.70	0.04
Government National Mortgage Association	229,205	AAA	1.94	27.48
	<u>\$ 11,809,004</u>		<u>100.00%</u>	<u>.54</u>

*Weighted average maturity in years

	<u>Fair Value</u>
Deposits	\$ 1,852,893
Investments	<u>11,809,004</u>
Total deposits and investments	<u>\$ 13,661,897</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 8,553,936
Cash and cash equivalents, restricted	4,878,756
Investments	<u>229,205</u>
Total deposits and investments	<u>\$ 13,661,897</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, investments are held in a bank's trust department in the City's name.

Restricted Amounts:

Restricted cash and cash equivalents and investments consist primarily of unused bond proceeds, balances required to be maintained as conditions of certain bond instruments, and amounts held for others.

Note 3. Receivables

Receivables for the individual major funds, including applicable allowances for uncollectible accounts, are as follows:

	General	Other Governmental Funds	Water and Sewer	Solid Waste	Electric	Total
Receivables						
Taxes	\$ 349,808	\$ 973	\$ -	\$ -	\$ -	\$ 350,781
Accounts	12,688	-	671,264	238,809	2,670,862	3,593,623
Gross receivables	362,496	973	671,264	238,809	2,670,862	3,944,404
Less: allowance for uncollectibles	(56,885)	-	(73,397)	(19,828)	(292,836)	(442,946)
Net receivables	\$ 305,611	\$ 973	\$ 597,867	\$ 218,981	\$ 2,378,026	\$ 3,501,458

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, *deferred revenue* was as follows:

	Unavailable
Delinquent taxes receivable	\$ 128,286

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Interfund Receivables, Payables and Transfers

Amounts due from/to other funds consist of the following at June 30:

Receivable Fund	Payable Fund	Amount
General	Other Governmental	\$ 437,366
Electric	Water and Sewer	1,091,616
Electric	Solid Waste	1,808,459
		<u>\$ 3,337,441</u>

The primary purpose of the interfund balances is to fund negative pooled cash amounts in the Water and Sewer and Solid Waste Funds, and a transfer of residual balances from the other Governmental Funds to the General Fund.

Interfund transfers are as follows:

Transfer Out: Fund	Transfer In: Fund	Amount
Electric	General	\$ 1,467,000
General	Solid Waste	277,264
Other Governmental	General	437,366
		<u>\$ 2,181,630</u>

The primary purposes of the transfers from the Electric Fund to the General Fund is to use unrestricted Electric revenues to finance General Fund programs in accordance with budgetary authorizations. General Fund transfers to the Solid Waste Fund are to help fund landfill remediation costs that the Solid Waste Fund has incurred. Other Governmental Fund transfers to the General Fund are to transfer remaining residual balances of closed funds.

Note 5. Due to/from other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Business-Type Activities
Bedford County		
Growth-sharing agreement	\$ 39,969	\$ 39,969
Joint tourism agreement	302,839	-
Commonwealth of Virginia		
Cost reimbursements	18,531	-
State sales tax	24,667	-
Local sales tax	89,462	-
	<u>\$ 475,468</u>	<u>\$ 39,969</u>

(Continued)

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. Due to/from other Governmental Units (Continued)

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Shared services	\$ 755,046	\$ -
Consumer utility tax	5,573	-
Bedford Joint Economic Development Authority contribution	<u>-</u>	<u>53,335</u>
	<u><u>\$ 760,619</u></u>	<u><u>\$ 53,335</u></u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30 was as follows:

<u>Governmental Activities*</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 1,989,260	\$ -	\$ -	\$ 1,989,260
Construction in progress	99,336	40,803	19,783	120,356
Total capital assets, not depreciated	<u>2,088,596</u>	<u>40,803</u>	<u>19,783</u>	<u>2,109,616</u>
Capital assets, depreciated				
Buildings and improvements	12,335,196	36,954	-	12,372,150
Machinery and equipment	6,849,144	257,141	-	7,106,285
Infrastructure	<u>10,871,862</u>	<u>271,580</u>	<u>-</u>	<u>11,143,442</u>
Total capital assets, depreciated	<u>30,056,202</u>	<u>565,675</u>	<u>-</u>	<u>30,621,877</u>
Less accumulated depreciation	<u>14,564,137</u>	<u>1,176,978</u>	<u>-</u>	<u>15,741,115</u>
Total capital assets, depreciated, net	<u>15,492,065</u>	<u>(611,303)</u>	<u>-</u>	<u>14,880,762</u>
Governmental activities capital assets, net	<u><u>\$ 17,580,661</u></u>	<u><u>\$ (570,500)</u></u>	<u><u>\$ 19,783</u></u>	<u><u>\$ 16,990,378</u></u>

*Capital asset beginning balances were adjusted for retroactive reporting of infrastructure.
(See Note 19)

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Capital Assets (Continued)

<u>Business-type Activities*</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 994,514	\$ 336,203	\$ -	\$ 1,330,717
Construction in progress	1,198,022	96,246	1,183,609	110,659
Total capital assets, not depreciated	<u>2,192,536</u>	<u>432,449</u>	<u>1,183,609</u>	<u>1,441,376</u>
Capital assets, depreciated				
Buildings and improvements	28,495,231	1,122,962	-	29,618,193
Machinery and equipment	3,008,294	94,761	-	3,103,055
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	<u>28,564,357</u>	<u>775,632</u>	<u>-</u>	<u>29,339,989</u>
Total capital assets, depreciated	<u>63,383,827</u>	<u>1,993,355</u>	<u>-</u>	<u>65,377,182</u>
Less accumulated depreciation	<u>28,669,445</u>	<u>1,478,216</u>	<u>-</u>	<u>30,147,661</u>
Total capital assets, depreciated, net	<u>34,714,382</u>	<u>515,139</u>	<u>-</u>	<u>35,229,521</u>
Business-type activities capital assets, net	<u>\$ 36,906,918</u>	<u>\$ 947,588</u>	<u>\$ 1,183,609</u>	<u>\$ 36,670,897</u>

Included in Governmental Activities' capital assets is property in the amount of \$1,460,643 at June 30 financed by a capital lease. Included in Business-type Activities are capital assets in the amount of \$717,885 at June 30 financed by a capital lease.

*Capital asset beginning balances were adjusted for developer contributions not recorded in prior years. (See Note 19)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 105,928
Public safety	247,165
Public works	164,778
Education	494,331
Parks, recreation, and cultural	70,619
Community development	<u>94,157</u>
	<u>\$ 1,176,978</u>
Business-type activities	
Water and sewer	\$ 622,075
Solid waste	107,529
Electric	<u>748,612</u>
	<u>\$ 1,478,216</u>

Construction Commitments

The City had no significant construction commitments as of June 30.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Long-Term Liabilities

Prior Year Defeasance of Debt

In 2002 and 2006, the City defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. During 2002 and 2006, the trust monies were used to retire the refunded bonds. The deferred costs are being amortized over the life of the new bonds as a component of interest expense.

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 2,047,200	\$ -	\$ 526,600	\$ 1,520,600	\$ 366,800
Literary fund loans	1,050,000	-	75,000	975,000	75,000
Total bonds and loans payable	3,097,200	-	601,600	2,495,600	441,800
Capital leases	876,479	-	160,552	715,927	166,168
Compensated absences	160,716	180,287	160,716	180,287	180,287
Governmental activities long-term liabilities	<u>\$ 4,134,395</u>	<u>\$ 180,287</u>	<u>\$ 922,868</u>	<u>\$ 3,391,814</u>	<u>\$ 788,255</u>
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 14,617,123	\$ 500,000	\$ 1,260,181	\$ 13,856,942	\$ 1,288,058
Revenue bonds	17,714,178	-	810,645	16,903,533	829,459
Total bonds payable	32,331,301	500,000	2,070,826	30,760,475	2,117,517
Compensated absences	126,201	139,914	126,201	139,914	139,914
Landfill closure liability:					
Open landfill	1,698,542	61,263	-	1,759,805	-
Closed landfill	2,448,458	239,737	392,000	2,296,195	243,588
Business-type activities long-term liabilities	<u>\$ 36,604,502</u>	<u>\$ 940,914</u>	<u>\$ 2,589,027</u>	<u>\$ 34,956,389</u>	<u>\$ 2,501,019</u>

Governmental activities compensated absences are generally liquidated by the general fund.

The annual requirements to amortize long-term debt and related interest are as follows:

Year Ended June 30	Governmental Activities				Business-type Activities			
	General Obligation Bonds		Other Long-Term Debt		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 366,800	\$ 50,730	\$ 241,168	\$ 53,936	\$ 1,288,058	\$ 369,947	\$ 829,459	\$ 712,007
2009	373,800	35,959	246,963	45,891	1,666,486	332,183	858,423	689,452
2010	145,000	23,393	252,961	37,642	994,512	281,059	872,544	663,496
2011	150,000	19,119	259,168	29,185	941,849	255,506	911,826	633,082
2012	155,000	14,320	90,667	20,509	931,652	229,925	797,009	606,101
2013-2017	330,000	12,047	375,000	67,500	4,535,803	730,281	3,913,536	2,575,087
2018-2022	-	-	225,000	13,500	2,721,323	269,679	4,865,656	1,622,510
2023-2027	-	-	-	-	777,259	74,129	3,855,080	410,828
	<u>\$ 1,520,600</u>	<u>\$ 155,568</u>	<u>\$ 1,690,927</u>	<u>\$ 268,163</u>	<u>\$ 13,856,942</u>	<u>\$ 2,542,709</u>	<u>\$ 16,903,533</u>	<u>\$ 7,912,563</u>

(Continued)